

## Determinants of Income Smoothing Practices with Managerial Ownership Structure and Firm Size as Moderators

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### Abstract

Penelitian ini bertujuan untuk mengetahui pengaruh profitabilitas, kebijakan dividen, *financial leverage* terhadap praktik perataan laba dan pengaruh moderasi struktur kepemilikan manajerial dan ukuran perusahaan pada pengaruh profitabilitas, kebijakan dividen, *financial leverage* terhadap praktik perataan laba. Desain penelitian yang digunakan adalah kuantitatif kausal. Populasi penelitian ini adalah seluruh perusahaan manufaktur di Bursa Efek Indonesia sebanyak 157 perusahaan. Teknik pengambilan sampel menggunakan *purposive sampling* dengan jumlah sampel sebanyak 30 perusahaan. Teknik analisis data yang digunakan adalah analisis regresi moderasi. Hasil penelitian menunjukkan bahwa (1) profitabilitas berpengaruh negatif signifikan terhadap praktik perataan laba, (2) kebijakan dividen berpengaruh positif signifikan terhadap praktik perataan laba, (3) *financial leverage* berpengaruh positif signifikan terhadap praktik perataan laba, (4) struktur kepemilikan manajerial memperkuat pengaruh negatif profitabilitas terhadap praktik perataan laba, (5) struktur kepemilikan manajerial memperlemah pengaruh positif kebijakan dividen terhadap praktik perataan laba, (6) struktur kepemilikan manajerial memperlemah pengaruh positif *financial leverage* terhadap praktik perataan laba, (7) ukuran perusahaan memperlemah pengaruh negatif profitabilitas terhadap praktik perataan laba, (8) ukuran perusahaan memperkuat pengaruh positif kebijakan dividen terhadap praktik perataan laba, dan (9) ukuran perusahaan memperkuat pengaruh positif *financial leverage* terhadap praktik perataan laba.

**Keywords:** profitabilitas, kebijakan dividen, *financial leverage*, struktur kepemilikan manajerial, ukuran perusahaan, dan perataan laba.

### Abstract

*This study aims to determine the effect of profitability, dividend policy, financial leverage on income smoothing practices and the effect of moderating managerial ownership structure and firm size on the effect of profitability, dividend policy, financial leverage on income smoothing practices. The research design used causal quantitative. The population of this study were all manufacturing companies on the Indonesia Stock Exchange as many as 157 companies. The sampling technique used purposive sampling with a total sample of 30 companies. The data analysis technique used moderated regression analysis. The results show that (1) profitability had a significant negative effect on income smoothing practices, (2) dividend policy had a significant positive effect on income smoothing practices, (3) financial leverage had a significant positive effect on income smoothing practices, (4) managerial ownership structure strengthens the negative effect of profitability on income smoothing practices, (5) managerial ownership structure weakens the positive effect of dividend policy on income smoothing practices, (6) managerial ownership structure weakens the positive influence of financial leverage on income smoothing practices, (7) firm size weakens the negative effect of profitability on earnings smoothing practices. income smoothing, (8) firm size strengthens the positive effect of dividend policy on income smoothing practices, and (9) firm size strengthens the positive effect of financial leverage on income smoothing practices.*

**Keywords:** profitability, dividend policy, financial leverage, managerial ownership structure, firm size, and income smoothing.

### Introduction

Profit is the main target of investors, with large profits attracting investors to invest (Purnamawati, 2020). Based on the Statement of Financial Accounting Standards (PSAK) Number 25 of 2009, the benefits of profit information are to assess changes in potential economic resources that may be controlled in the future, generate cash flows from existing resources, and to formulate considerations regarding the effectiveness of the company in utilizing additional resources. Therefore, the company's management has a tendency to be

able to take actions that can cause financial statements to be good and fair. One of these actions is the practice of income smoothing (Purnamawati & Hatane, 2022).

The phenomenon of income smoothing cases still occurs in 2020 which is shown in the *Journal of Research & Accounting Journal* by Angreini & Nurhayati (2022), which shows that the phenomenon of income smoothing practices occurs in the case of PT Akasha Wira International Tbk (ADES), where PT Akasha Wira International Tbk (ADES) in the current year earned a profit of Rp 135.78 billion, or an increase of 62.65% compared to 2019 of Rp. IDR 83.885 billion. The phenomenon of income smoothing also occurred in the company PT Tiga Pilar Sejahtera Food Tbk (AISA) in 2019, where the profit of the AISA entity throughout 2019 spiked, even though the results of the investigation in December 2018 still lost Rp 123.43 billion (Saleh, 2020). The results of the analysis show that the profit of the AISA entity in the period 2017 to 2019, namely in 2017 was Rp. 558 billion, in 2018 it was Rp. 459 billion, and in 2019 it was Rp. 447 billion. Based on these data, it appears that there is income smoothing because the profit is similar or evenly distributed with the previous year's profit.

In the case of income smoothing, the factors that influence the occurrence of income smoothing actions are very important. One of the factors that influence the practice of income smoothing is profitability. When profitability is low, management tends to take income smoothing actions by increasing the resulting profit. Companies with low profitability are indicated to perform income smoothing because companies that have low profitability will find it difficult to attract the attention of external parties so that the possible way to do that is by showing relatively stable profits (Cecilia, 2012). Research conducted by Ramanuja & Mertha (2015) shows that profitability (ROA) has an effect on income smoothing practices. The same result is also shown by research conducted by Iskandar & Suardana (2016), which shows that profitability has an effect on income smoothing practices. Thus the hypothesis in this study are:

H1: Profitability has a negative and significant effect on income smoothing practices.

In addition to profitability, there are factors that influence the company's management in carrying out income smoothing practices, namely dividend policy. The distribution of dividends is a positive signal to investors regarding the sale of shares. The distribution of dividends that are relatively stable is more favored by investors (Gumanti, 2017). Companies that set a high dividend payout ratio policy usually indicate that the company's risk is high as well. When profits fluctuate, companies with high dividend payout ratios will receive higher risk when compared to companies with low dividend payout ratios. Therefore, there is a tendency for management to smooth out earnings in order to maintain a stable level of profit. Research conducted by Suarnaningsih & Indraswarawati (2020) states that there is a significant positive influence between the DPR on the practice of income smoothing. The same result was also found by Setiawan (2018), which concluded that the dividend payout ratio had a positive effect on income smoothing. Thus the hypothesis in this study are:

H2: Dividend policy has a positive and significant effect on income smoothing practices.

Another factor that influences the company's management in carrying out income smoothing practices is financial leverage. Financial leverage has an effect on income smoothing, where the higher the company's debt, the greater the risk faced by investors while investors expect a high rate of return, as a result of this condition companies tend to practice income smoothing (Widhyawan & Dharmadiaksa, 2015). If the company has relatively large debt, of course, the risk will increase, so the risk borne by the owner also increases. Then it will be able to trigger the company to take income smoothing actions to stabilize the company's financial position (Ginantra & Wijana, 2015). Research conducted by Fatmawati & Djayanti (2015) states the results of the study that financial leverage has a significant

influence on income smoothing practices. The same results were also found by research conducted by Diah & Budiasih (2018), which stated that financial leverage had a significant effect on income smoothing practices. Thus the hypothesis in this study are:

H3: Financial leverage has a positive and significant effect on income smoothing practices.

The relationship between profitability and income smoothing practices can be moderated by the managerial ownership structure variable. Managerial ownership is one way of controlling agency conflict. Agency theory reveals that there is a conflict of interest between the principal and the agent (Purnamawati et al., 2017). Agency conflict is caused by the separation of ownership and control in the company (Harry, 2012). Managerial ownership can be a good corporate governance mechanism that can reduce the misalignment of interests between management and owners or shareholders. If the managerial ownership structure is bigger, it will reduce the occurrence of earnings management. The results of the research by Prananda & Anwar (2021) show that managerial ownership as a moderating variable strengthens the effect of profitability on income smoothing. Thus the hypothesis in this study are:

H4: The managerial ownership structure strengthens the negative and significant effect of profitability on income smoothing practices.

The relationship between dividend policy and income smoothing practices can be moderated by the managerial ownership structure variable. To control agency conflicts by the separation of ownership and control in the company. The more concentrated the ownership of the company in one person, the stronger the control and the tendency to suppress agency conflicts (Harry, 2012). The amount of managerial ownership is expected to improve the quality of financial reporting and profits generated by the company. The research results of Sari & Khafid (2020) show that managerial ownership in BUMN companies is able to moderate the effect of dividend policy on earnings management. Thus the hypothesis in this study are:

H5: The managerial ownership structure weakens the positive and significant effect of dividend policy on income smoothing practices.

The relationship of financial leverage with income smoothing practices can be moderated by the managerial ownership structure variable. The greater the ownership of management in the company, the more management will try to improve its performance for the benefit of shareholders, including its own interests (Kholis, 2014). The management as the owner of the company is afraid to take risks if the company has high financial leverage so that it will weaken the practice of income smoothing (Juniarta & Sujana, 2015). Thus, managerial ownership weakens the effect of financial leverage on income smoothing practices. The research results of Sari & Khafid (2020) show that managerial ownership in state-owned companies is able to moderate the effect of leverage on earnings management. Thus the hypothesis in this study are:

H6: The managerial ownership structure weakens the positive and significant effect of financial leverage on income smoothing practices.

The relationship between profitability and income smoothing practices can be moderated by the firm size variable. The relationship between profitability and income smoothing practices can be moderated by the firm size variable. Large companies automatically have a greater total asset value and better performance, so companies tend to minimize profits to avoid government policies (Paramita & Isarofah, 2016). Thus, companies with high profitability, supported by large company sizes, will be able to encourage income smoothing. Research result Akbar (2019) shows that firm size moderates the effect of profitability on income smoothing practices. Thus the hypothesis in this study are:

H7: Firm size weakens the negative and significant effect of profitability on income smoothing practices.

The relationship between dividend policy and income smoothing practices can be moderated by the firm size variable. Large companies will avoid drastic profit fluctuations by taking income smoothing actions, because the company will later be burdened with large taxes and minimize the risks that may occur (Harry, 2012). Therefore, there is a tendency on the part of management to smooth out profits in order to maintain a stable level of profit. The distribution of dividends that are relatively stable is more favored by investors (Gumanti, 2017). Companies with high dividend payouts supported by large company sizes can encourage income smoothing. The results of research by Paramita & Isarofah (2016) show that firm size is a quasi-moderating variable in the relationship between dividend policy and income smoothing. Thus the hypothesis in this study are:

H8: Firm size strengthens the positive and significant effect of dividend policy on income smoothing practices.

The relationship of financial leverage with income smoothing practices can be moderated by the firm size variable. Firm size is a moderating variable on the effect of leverage on income smoothing practices (Vivian, 2015). Large companies are more likely to carry out income smoothing actions than small companies (Aemanah & Isywardhana, 2019). Large companies automatically have a greater total asset value and better performance so that companies minimize profits to avoid government policies. The results of research conducted by Paramita & Isarofah (2016) show that firm size is a moderating variable on the effect of leverage on income smoothing. Thus the hypothesis in this study are:

H9: Firm size strengthens the positive and significant influence of financial leverage on income smoothing practices.

## Methods

Contains how a date is This type of research is quantitative research with associative research methods, namely research that aims to determine the relationship between two or more variables. The variables of this study consist of independent variables, namely profitability, dividend policy, and financial leverage, while the dependent variable is the tendency of income smoothing practices and the moderator variables are managerial ownership structure and firm size.

The population in this study were all manufacturing companies on the Indonesia Stock Exchange as many as 157 companies. The sampling technique used was purposive sampling, namely the selection of samples obtained with certain considerations or criteria. Based on the specified criteria, the selected sample is 30 companies.

The data collection technique used in this research is a documentation technique by collecting documents that support the research data, namely the annual report. The type of data used in this research is quantitative data, which is obtained from a summary of the performance of listed companies and the annual financial statements of manufacturing sector companies on the Indonesia Stock Exchange 2016-2020 on the website [www.idx.co.id](http://www.idx.co.id). The source of data in this research is secondary data. In addition, research is also carried out through scientific journals, via the internet using websites related to the title of this research. The data analysis technique uses moderated regression analysis. By testing the classical assumptions in the form of normality test, multicollinearity test, heteroscedasticity test, and autocorrelation test.

## Results and Discussion

Before testing the hypothesis using moderated regression analysis, the classical assumption test was first tested, namely normality test, multicollinearity test, heteroscedasticity test, and autocorrelation test. The normality test in this study used the One-

Sample Kolgomorov-Smirnov Test. The results of the data normality test are presented in table 2.

**Table 2.**Normality Test Results

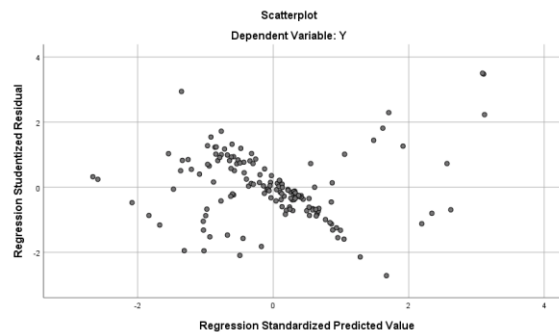
One-Sample Kolgomorov-Smirnov Test	
	Unstandardized Residual
N	150
Test statistics	0.069
asymp. Sig.(2-tailed)	0.080

Based on table 3, it is shown that the value of Sig. of 0.080. Value of Sig. is greater than 0.05 so that the data distribution is normally distributed. Multicollinearity test using Variance Inflation Factor (VIF)/Tolerance. A summary of the results of the multicollinearity test is presented in table 3.

**Table 3.**Summary of Multicollinearity Test Results

Model	Collinearity Statistics		Information
	Tolerance	VIF	
Profitability	0.718	1,392	Free of multicollinearity
Dividend policy	0.677	1,477	Free of multicollinearity
Financial leverage	0.768	1,302	Free of multicollinearity
Managerial ownership structure	0.849	1.178	Free of multicollinearity
Company size	0.933	1.071	Free of multicollinearity

Based on the data in table 3, it can be seen that all independent variables have a VIF value less than 10 and a tolerance value greater than 0.10, so it can be concluded that the regression model is free from multicollinearity. The heteroscedasticity test uses a scatterplot graph. The results of the heteroscedasticity test can be seen in Figure 1.



**Image 1.** Heteroscedasticity Test Results with Scatterplot

Figure 1 shows that the distribution of the points generated is randomly generated, and the direction of the distribution is above or below the number 0 on the Y axis. Thus, there is no symptom of heteroscedasticity. Autocorrelation test using Durbin Weston (DW). The results of the autocorrelation test are presented in table 4.

**Table 4.**Test results Autocorrelation

Model	R	R Square	Adjusted R Square	Durbin Watson
1	0.880	0.775	0.767	1,946

Based on table 4, it is known that the value of Durbin Watson is 1.946. The value of the Durbin Watson table at = 0.05, n = 150, k = 5 is dU = 1.802. Durbin Watson's value is

between  $dU$  and  $(4 - dU)$  or  $1.802 < 1.946 < 2.198$ . Thus, it can be concluded that in linear regression there is no autocorrelation.

After the classical assumption test is met, it is continued with hypothesis testing using Moderated Regression Analysis (MRA) as shown in table 5.

**Table 5.** Results Hypothesis test

Path of Effect	Regression Coefficient	t	Sig.
Profitability → profit smoothing practice	-0.375	-6.682	0.000
Dividend policy → profit smoothing practice	0.458	7,538	0.000
Financial leverage → profit smoothing practice	0.164	2,822	0.005
Profitability*Managerial ownership structure → profit smoothing practice	-0.279	-4,232	0.000
Dividend policy*Managerial ownership structure → profit smoothing practice	0.437	3,948	0.000
Financial leverage*managerial ownership structure → profit smoothing practice	0.293	2,522	0.013
Profitability*Company size → profit smoothing practice	-0.515	-2,310	0.022
Dividend policy*Company size → profit smoothing practice	-0.832	-2,644	0.009
Financial leverage*Company Size → profit smoothing practice	-0.760	-2,029	0.044

#### The Effect of Profitability on Profit Smoothing Practices

The results of testing the first hypothesis indicate that profitability has a t-test significance value of 0.000, where the value is smaller than 0.05 so that H1 is accepted. So it can be concluded that profitability has a negative and significant effect on income smoothing practices.

The results of this study are in accordance with agency theory which states that agency conflicts that occur between principals and agents cause information asymmetry. Information asymmetry between agents and principals can provide opportunities for agents to behave opportunistically for their personal interests. When profitability is low, management tends to take income smoothing actions by increasing the resulting profit. Companies with high profitability do not show indications of income smoothing practices, on the other hand companies with low profitability are indicated for income smoothing because companies that have low profitability will have difficulty attracting the attention of external parties so that the possible way to do this is by showing relatively stable profits (Cecilia, 2012).

Empirical studies that also support the findings of this study are the results of research conducted by Ramanuja & Mertha (2015), which shows that profitability has an effect on income smoothing practices. The same result is also shown by research conducted by Iskandar & Suardana (2016), which shows that profitability has an effect on income smoothing practices. In line with research Herlina (2016) shows that profitability has an effect on income smoothing practices.

#### The Effect of Dividend Policy on Income Smoothing Practices

The results of testing the second hypothesis indicate that dividend policy has a t-test significance value of 0.000, where the value is smaller than 0.05 so that H2 is accepted. So it can be concluded that dividend policy has a positive and significant effect on income smoothing practices.

The results of this study are in accordance with the signal theory that dividend distribution is a positive signal to investors regarding the sale of shares because it can indicate the company's ability to generate profits (Salfieriaty, 2017). Companies that set high dividend payouts usually indicate that the company's risk is high as well. This is because the higher the investment risk, the higher the rate of return. Because when profits fluctuate, companies with high dividend payout ratios will receive a higher risk when compared to companies with low dividend payout ratios (Gumanti, 2017). Therefore, there is a tendency on the part of management to smooth out profits in order to maintain a stable level of profit.

An empirical study that supports the findings of this study is the result of research conducted by Suarnaningsih & Indraswarawati (2020), which states that the dividend payout ratio has an effect on income smoothing. The same result was also found by Lestari (2021), which concluded that the dividend payout ratio had a positive effect on income smoothing.

#### Effect of Financial Leverage on Income Smoothing Practices

The results of testing the third hypothesis indicate that financial leverage has a t-test significance value of 0.005, where the value is smaller than 0.05 so that H3 is accepted. So it can be concluded that financial leverage has a positive and significant effect on income smoothing practices.

The results of this study are supported by the opinion of Widhyawan & Dharmadiaksa (2015) that financial leverage has an effect on income smoothing, the higher the company's debt, the greater the risk faced by investors while investors expect a high rate of return, as a result of this condition the company tends to practice income smoothing. If the company has relatively large debt, of course, the risk will increase, so the greater the leverage ratio, the risk borne by the owner will also increase. Then it will be able to trigger the company to take income smoothing actions to stabilize the company's financial position (Ginantra & Wijana, 2015).

Empirical studies that support the findings of this study are the results of research conducted by Akbar (2019), which states that there is a significant effect of leverage on the practice of income smoothing. The same results were also found by the research conducted Natalie (2016), which states the results of the study that leverage has a significant effect on income smoothing practices.

#### The Effect of Managerial Ownership Structure in Moderating the Relationship Between Profitability and Income Smoothing Practices

The results of testing the fourth hypothesis indicate that the interaction between profitability and managerial ownership structure ( $X1*Z1$ ) has a t-test significance of 0.000, where the value is  $<0.05$  so H4 is accepted. So, it can be concluded that the managerial ownership structure strengthens the negative and significant effect of profitability on the practice of income smoothing.

The results of this study are supported by the opinion of Mahadewi & Krisnadewi (2017) that if the interests of managers and owners can be aligned, managers will not be motivated to manipulate information or perform earnings management so that the quality of accounting information and earnings informativeness can increase. By increasing managerial ownership, it is expected to reduce earnings management actions. Managerial ownership is one way of controlling agency conflict. Agency conflict is caused by the separation of ownership and control in the company (Harry, 2012). Managerial ownership can be a good corporate governance mechanism that can reduce the misalignment of interests between management and owners or shareholders. If the managerial ownership structure is bigger, it will reduce the occurrence of earnings management.

The empirical study that supports the findings of this study is the result of research conducted by Prananda & Anwar (2021), which shows that managerial ownership as a moderating variable strengthens the effect of profitability on income smoothing. In their research, Prananda & Anwar found that the higher the interaction between managerial ownership and profitability, meaning that the company's profitability is supported by higher managerial ownership, it reduces the tendency for income smoothing to occur.

#### Effect of Managerial Ownership Structure in Moderating the Relationship Between Dividend Policy and Income Smoothing Practices

The results of testing the fifth hypothesis indicate that the interaction between dividend policy and managerial ownership structure ( $X2*Z1$ ) has a t-test significance of 0.000, where the value is  $<0.05$  so  $H5$  is accepted. So, it can be concluded that the managerial ownership structure weakens the positive and significant effect of dividend policy on income smoothing practices.

The results of this study are supported by the opinion of Harry (2012) that to control agency conflicts by the separation of ownership and control in the company. If the ownership of the company is more concentrated in one person, then the control will be stronger and the tendency to suppress agency conflict. Managerial ownership weakens the effect of dividend payout ratio on income smoothing (Jayanti et al., 2018). This means that a high dividend payout ratio can increase the tendency of income smoothing practices, but the tendency will decrease because the company has high managerial ownership. This can happen because the ownership of the manager can align the existing potential.

The empirical study that supports the findings of this study is the result of research conducted by Sari & Khafid (2020), which shows that managerial ownership in state-owned companies is able to moderate the effect of dividend policy on earnings management. This means that the higher the dividend policy supported by high managerial ownership, the lower the earnings management will be.

#### Effect of Managerial Ownership Structure in Moderating the Relationship Between Financial Leverage and Income Smoothing Practices

The results of testing the sixth hypothesis indicate that the interaction between financial leverage and managerial ownership structure ( $X3*Z1$ ) has a t-test significance of 0.013, where the value is  $<0.05$  so  $H6$  is accepted. So, it can be concluded that the managerial ownership structure weakens the positive and significant influence of financial leverage on income smoothing practices.

The results of this study are supported by the opinion of Dewi & Khoiruddin (2016) that the good corporate governance mechanism that can control earnings management actions is the managerial ownership structure. The greater the ownership of management in the company, the more management will try to improve its performance for the benefit of shareholders, including its own interests (Kholis, 2014). Management actions will not be too aggressive in carrying out income smoothing practices because they will not deceive themselves as owners of the company. The management as the owner of the company is afraid to take risks if the company has high financial leverage so that it will weaken the practice of income smoothing (Juniarta & Sujana, 2015). Thus, managerial ownership weakens the effect of financial leverage on income smoothing practices.

The empirical study that supports the findings of this study is the result of research conducted by Sari & Khafid (2020), which shows that managerial ownership in BUMN companies is able to moderate the effect of leverage on earnings management. This means



that the higher the dividend policy supported by high managerial ownership, the lower the earnings management will be.

#### The Effect of Firm Size in Moderating the Relationship Between Profitability and Income Smoothing Practices

The results of testing the seventh hypothesis indicate that the interaction between profitability and firm size ( $X1*Z2$ ) has a t-test significance of 0.022, where the value is  $<0.05$  so  $H7$  is accepted. So, it can be concluded that firm size weakens the negative and significant effect of profitability on income smoothing practices.

The results of this study are supported by the opinion of Aemanah & Isyuardhana (2019) that large companies are more likely to carry out income smoothing actions than small companies. Large companies automatically have a greater total asset value and better performance so that companies will tend to minimize profits to avoid government policies (Paramita & Isarofah, 2016). Large companies also attract the attention of investors and the public so that companies will be more careful in managing financial statements than small companies. Thus, companies with high profitability, supported by large company sizes, will be able to prevent income smoothing.

Empirical studies that support the findings of this study are the results of research conducted by Akbar (2019), which shows that in moderation the variable size of the company moderates the effect of profitability on income smoothing practices with pure moderation (pure moderated).

#### The Effect of Firm Size in Moderating the Relationship Between Dividend Policy and Income Smoothing Practices

The results of testing the eighth hypothesis indicate that the interaction between dividend policy and firm size ( $X2*Z2$ ) has a t-test significance of 0.009, where the value is  $<0.05$  so  $H8$  is accepted. So, it can be concluded that firm size strengthens the positive and significant effect of dividend policy on income smoothing practices.

The results of this study are supported by the opinion of Harry (2017) that large companies will avoid drastic profit fluctuations by taking income smoothing actions, because the company will later be burdened with large taxes and minimize the risks that may occur. Large companies are more likely to perform income smoothing because the management knows that if the profits are too large, it will attract the attention of regulators, especially the government, to carry out policies on the company so that management tends to minimize profits. Because when profits fluctuate, companies with high dividend payout ratios will receive a higher risk when compared to companies with low dividend payout ratios. Therefore, there is a tendency on the part of management to smooth out profits in order to maintain a stable level of profit (Gumanti, 2017). Thus, companies with high dividend distributions supported by large company sizes will be able to encourage income smoothing.

Empirical studies that also support the findings of this study are the results of research conducted by Paramita & Isarofah (2016) showing that firm size is a quasi-moderating variable in the relationship between dividend policy and income smoothing.

#### The Effect of Firm Size in Moderating the Relationship Between Financial Leverage and Income Smoothing Practices

The results of testing the ninth hypothesis indicate that the interaction between financial leverage and firm size ( $X3*Z2$ ) has a t-test significance of 0.044, where the value is  $<0.05$  so  $H9$  is accepted. So, it can be concluded that firm size strengthens the positive and significant influence of financial leverage on income smoothing practices.

The results of this study are supported by the opinion of Vivian (2015) that firm size is a moderating variable on the effect of leverage on income smoothing practices. Firm size both weakens the negative relationship between leverage and income smoothing practices. If the size of the company is small, the total assets are relatively lower and the profit is small, so that the company's source of funding is likely to come from loans to outside parties. Large companies are more likely to carry out income smoothing actions than small companies (Aemanah & Isynuwardhana, 2019). Large companies automatically have a greater total asset value and better performance so that companies tend to minimize profits to avoid government policies.

Empirical studies that also support the findings of this study are the results of research conducted by Paramita & Isarofah (2016) showing that firm size is a moderating variable on the effect of leverage on income smoothing.

## Conclusion

Based on the results of the analysis and discussion, It can be concluded that (1) profitability has a negative and significant effect on income smoothing practices, (2) dividend policy has a positive and significant effect on income smoothing practices, (3) financial leverage has a positive and significant effect on income smoothing practices, (4) managerial ownership structure strengthens the influence of income smoothing. negative and significant profitability on income smoothing practices, (5) managerial ownership structure weakens the positive and significant effect of dividend policy on income smoothing practices, (6) managerial ownership structure weakens the positive and significant effect of financial leverage on income smoothing practices, (7) firm size weaken the negative and significant effect of profitability on income smoothing practices, (8) firm size strengthens the positive and significant effect of dividend policy on income smoothing practices, and (9) firm size strengthens the positive and significant effect of financial leverage on income smoothing practices.

Suggestions given In this study, the government needs to strengthen policies in the form of related regulations in order to suppress the practice of income smoothing. To do this, the government needs to stipulate laws and regulations that regulate the granting of relaxation of financial statement reporting limits as well as sanctions on companies that practice income smoothing after the relaxation policy is given. Evaluation activities also require a monitoring team to monitor earnings smoothing practices. This is done so that the company publishes annual financial reports in accordance with the actual situation. This is very important because the decisions made by the shareholders are largely determined by the quality of the financial reports presented by the management.

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